

# Inspector General

United States  
Department of Defense



Defense Agencies Initiative Did Not Contain Some  
Required Data Needed to Produce Reliable Financial  
Statements

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## Acronyms and Abbreviations

BTA	Business Transformation Agency
DAI	Defense Agencies Initiative
DCMO	Deputy Chief Management Officer
DDRS-B	Defense Departmental Reporting System - Budgetary
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DTIC	Defense Technical Information Center
FACTS	Federal Agencies' Centralized Trial Balance System
FFMIA	Federal Financial Management Improvement Act
FMR	Financial Management Regulation
FMS	Financial Management Service
MDA	Missile Defense Agency
OMB	Office of Management and Budget
PMO	Program Management Office
SBR	Statement of Budgetary Resources
SCOA	Standard Chart of Accounts
SFIS	Standard Financial Information Structure
SNC	Statement of Net Cost
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer
USSGL	United States Standard General Ledger
USUHS	Uniformed Services University of the Health Services



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

April 19, 2013

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER  
DEPUTY CHIEF MANAGEMENT OFFICER  
DIRECTOR, DEFENSE LOGISTICS AGENCY**

**SUBJECT: Defense Agencies Initiative Did Not Contain Some Required Data Needed to Produce  
Reliable Financial Statements (Report No. DODIG-2013-070)**

We are providing this report for review and comment. The Defense Agencies Initiative Program Management Office spent \$193 million from FY 2007 through FY 2012 to deploy the Defense Agencies Initiative without ensuring the system fulfilled the functional capabilities needed to generate reliable financial data. The DAI Program Management Officer did not have procedures and periodic reviews to ensure proper implementation of: reporting attributes, Standard Financial Information Structure Transaction Library posting logic, and the DoD standard chart of account codes before deploying DAI. As a result, the Defense Agencies Initiative could not generate all the financial data necessary to prepare financial statements. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that recommendations be resolved promptly. The Director, Business Integration Office, responded for the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The comments on Recommendation 2.a were not responsive, and comments on Recommendation 2.b were partially responsive. The Director, Business Integration Office, did not respond to Recommendations 3.a and 3.b. We request the Director, Business Integration Office, provide comments to Recommendations 2.a, 2.b, 3.a, and 3.b by May 20, 2013. The Deputy Chief Management Officer comments were partially responsive. We request the Deputy Chief Management Officer provide additional comments to Recommendations 3.a and 3.b by May 20, 2013. The Director, Defense Logistics Agency Information Operations, responded for the Director, Defense Logistics Agency, and the Defense Agencies Initiative Program Manager. The comments were responsive, and we require no further comments.

If possible, send a Microsoft Word (.doc) file and portable document format (.pdf) file containing your comments to [auddpao@dodig.mil](mailto:auddpao@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

Lorin T. Venable, CPA  
Acting Assistant Inspector General  
DoD Payments and Accounting Operations





# Results in Brief: Defense Agencies Initiative Did Not Contain Some Required Data Needed to Produce Reliable Financial Statements

## What We Did

We determined whether the Defense Agencies Initiative (DAI) fulfilled selected functional capabilities needed to generate accurate and reliable financial data and reported data in compliance with United States Standard General Ledger (USSGL) requirements. Due to the disestablishment of the Business Transformation Agency, Defense Logistics Agency assumed responsibility for DAI on August 1, 2011.

## What We Found

DAI did not fulfill functional capabilities needed to generate reliable financial data. DAI officials did not:

- consistently transmit 9 of 53 attributes needed to generate reliable financial information. This occurred because DAI officials did not follow guidance when configuring DAI reporting attributes and did not prevent DAI from processing incomplete manual vouchers.
- demonstrate that DAI could record transactions in compliance with the Standard Financial Information Structure Transaction Library (SFIS). Of 1,612 account codes, 1,551 were missing. This occurred because DAI officials did not have complete system documentation.
- include 3 out of 1,064 accounts in the DoD Standard Chart of Accounts (SCOA). This occurred because DAI officials did not believe all accounts were necessary because the organizations that used DAI did not use these accounts.

The root cause of these problems was that the Deputy Chief Management Officer (DCMO) and the Under Secretary of Defense (Comptroller)/Chief Financial Officer [USD(C)/CFO] did not ensure DAI officials properly configured DAI before deploying the system. As a result, financial data were unreliable, creating uncertainty on how \$402 million out of \$9.3 billion was reported on FY 2011 financial statements for the Defense Technical Information Center, Missile Defense Agency, and the Uniformed Services University of the Health Services.

## What We Recommend

We recommend that DoD officials configure DAI with all USSGL reporting attributes, establish controls over manual vouchers, develop complete system documentation, and annually certify that DAI is USSGL and SFIS compliant. In addition, DoD officials should revise the DoD Financial Management Regulation to require core financial systems to include all the accounts in the DoD SCOA, and require DoD to accumulate and report major program costs by program instead of appropriations. Also, DoD officials should improve their oversight of DAI to ensure it complies with USSGL and SFIS guidance.

## Management Comments and Our Response

Management comments were responsive for four of eight recommendations. We request that USD(C)/CFO and DCMO provide additional comments. Please see the recommendations table on the back of this page.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer	2.a, 2.b, 3.a, 3.b	
Deputy Chief Management Officer	3.a, 3.b	
Director, Defense Logistics Agency		4
Defense Agencies Initiative Program Manager		1.a, 1.b, 1.c

**Please provide comments by May 20, 2013.**

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# Introduction

## Objective

Our objective was to determine whether the Defense Agencies Initiative (DAI) fulfilled selected functional capabilities needed to generate timely, accurate, and reliable financial statements. Specifically, we determined whether DAI recorded financial data at the transaction level and reported financial data in compliance with the requirements of the United States Standard General Ledger (USSGL). See Appendix A for a discussion of our scope and methodology.

## Background on the Defense Agencies Initiative

DoD developed DAI as a single enterprise resource planning system for 28 DoD agencies. See Appendix B for a list of the DoD agencies. DAI's primary objective is to achieve an auditable, Chief Financial Officers Act-compliant system environment that facilitates accurate and timely financial data. DoD's goals for deploying DAI are to replace numerous legacy accounting and other systems, modernize financial management capabilities, eliminate material weaknesses, and achieve financial statement auditability. In addition, DoD designed DAI to comply with the Department's Business Enterprise Architecture and Office of Federal Financial Management requirements. DoD approved the initial contract award for DAI in September 2007 and approved the pilot at the Business Transformation Agency (BTA) in October 2008. The DAI Program Management Office (PMO) completed the initial deployment of the DAI pilot for the Procure to Pay process in June 2009.

The DAI PMO spent \$193 million on Research, Development, Test and Evaluation, Procurement, and Operations and Maintenance to develop and deploy DAI from FY 2007 through May 2012. DAI PMO estimated the total cost at completion for DAI to be \$426.8 million through FY 2016.

## ***Governance of Defense Agencies Initiative Implementation***

Since January 2007, DAI was a program under BTA's Defense Business System Acquisition Executive Directorate. BTA was a defense agency under the authority, direction, and control of the Deputy Chief Management Officer (DCMO) of the Department of Defense. BTA managed DoD enterprise-level system acquisitions, and had authority over budget formulation and execution for all systems under its purview. The DAI PMO, under BTA, had responsibility to design, develop, implement, and sustain the DAI solution pursuant to the system functional requirements within cost, schedule, and performance constraints. The Secretary of Defense directed the disestablishment of BTA no later than June 30, 2011. Effective August 1, 2011, the Defense Logistics Agency (DLA) Information Operations, Program Executive Office was responsible for DAI's development. The Program Executive Office serves as the single DLA official providing overall direction and guidance for development, acquisition, testing, system integration, product improvement, and fielding of DLA information technology programs, including DAI and its PMO.

The Under Secretary of Defense (Comptroller)/Chief Financial Officer [USD(C)/CFO] is the overall functional sponsor for the DAI program. USD(C)/CFO has primary responsibility for the functional requirements of the standard DAI solution to ensure achievement of the program's functional objectives. In accordance with DoD Directive 5118.03, April 20, 2012, USD(C)/CFO serves as the principal staff assistant for the development, integration, implementation, and maintenance of financial strategic plans, reengineering of financial practices, business information systems architectures related to financial management, and related strategies. USD(C)/CFO reviews, approves, and provides oversight of the planning, design, acquisition, deployment, operation, maintenance, and modernization of financial defense business systems.

The DCMO is the principal staff assistant and advisor to the Secretary of Defense and Deputy Secretary of Defense for matters relating to the management and improvement of integrated DoD business operations. DoD formally established the DCMO through DoD Directive 5105.82, October 17, 2008. As part of this Directive, the Department assigned to the DCMO the responsibility for recommending methodologies and measurements criteria for better synchronizing, integrating, and coordinating the business operations of the DoD to ensure optimal alignment in support of the warfighting mission. The Directive also gave the DCMO specific duties in the areas of strategic planning, performance management, process improvement, and defense business systems oversight. The Office of the DCMO provides oversight to programs through action officer/analyst oversight, the Defense Business Systems Management Committee, the Defense Acquisition and Investment Review Boards, and integrated product teams.

### ***Federal Financial Reporting Requirements***

Through an October 13, 2011 memorandum, the Secretary of Defense directed the Department to accelerate key elements of the Financial Improvement and Audit Readiness Plan and place greater emphasis on the overall effort. Specifically, the Secretary called for the Department to:

- achieve audit readiness of the Statement of Budgetary Resources (SBR) by the end of 2014.
- provide the necessary resources to meet these goals.
- meet the legal requirements to achieve full audit readiness for all DoD financial statements by 2017.

In 1996, Congress enacted the Federal Financial Management Improvement Act (FFMIA), which requires each agency to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and USSGL at the transaction level. Office of Management and Budget Circular No. A-127, "Financial Management Systems," January 9, 2009, (OMB Circular A-127) implemented the FFMIA. DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), volume 1, chapter 7, requires DoD to implement USSGL in all its accounting systems for all appropriations and funds in accordance with OMB Circular A-127. To be compliant

at the transaction level, systems must provide sufficient traceability from the general ledger balances to source documentation. Compliance with OMB Circular A-127 and FFMIA requires:

- data in financial reports to be consistent with the USSGL,
- transactions to be recorded consistently with USSGL rules, and
- supporting transaction detail for USSGL accounts to be readily available.

In addition, OMB Circular No. A-136, Financial Reporting Requirements, June 10, 2009, (OMB Circular A-136) requires that the Statement of Net Cost (SNC) show the net cost of operations for the reporting entity, as a whole, by major program, which should relate to the major goal(s) and output(s) described in the entity's strategic and performance plans.

### ***Standard Financial Information Structure Requirements***

DoD FMR, volume 1, chapter 4, established the Standard Financial Information Structure (SFIS) to standardize financial reporting across DoD and comply with USSGL at the transaction level. SFIS is a comprehensive data structure that supports requirements for budgetary, financial, cost-performance, and external reporting across DoD. SFIS requires all systems containing financial information to be able to capture and transmit SFIS data or demonstrate a crosswalking<sup>1</sup> to the SFIS format. The USSGL SFIS transaction library defines DoD transaction codes that delineate the transaction codes in the Treasury Financial Manual, USSGL Supplement, Section III, "Account Transactions." The DoD FMR, volume 1, chapter 7 states that the SFIS USSGL Transaction library establishes the DoD enterprise-wide requirement for the implementation of the USSGL through detailed transaction postings for budgetary, proprietary, and memorandum accounts.

In addition, SFIS requires compliance with the DoD Standard Chart of Accounts (SCOA). The USD(C)/CFO memorandum, "DoD Standard Chart of Accounts in Standard Financial Information Structure (SFIS)," August 13, 2007, requires the use of the DoD SCOA in general ledger accounting systems. The DoD SCOA is composed of USSGL accounts (first four digits) and DoD standard account extensions (last four digits) to provide the detail required for budgetary, financial, and management reports.

### ***Defense Departmental Reporting System–Budgetary***

The Defense Departmental Reporting System–Budgetary (DDRS-B) is designed to standardize the DoD departmental reporting process and produce the monthly departmental reports based on the USSGL and standard attributes. The DDRS-B application is a reporting tool and not an accounting tool. This application is designed to produce budgetary reports but not determine whether the correct accounting rules and principles are used when recording transactions and producing reports. DoD components

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<sup>1</sup> Crosswalking is a process of mapping elements in one table/location to the equivalent elements in another table/location.

compile and upload their trial balances into the DDRS-B. The DDRS-B application is managed by DLA as part of the Business Enterprise Information Services family of systems. The DDRS PMO is responsible for the development and maintenance of DDRS-B.

### ***Investment Review Board***

Section 901 of the National Defense Authorization Act for Fiscal Year 2012, December 31 2011, (section 2222, title 10 United States Code [2011]) eliminated the use of multiple, functionally oriented Investment Review Boards (IRBs) that focused on the review and certification of Defense business system (DBS) modernizations. Instead, Section 901 requires the establishment of a single IRB, chaired by the DCMO, having a cross-functional, enterprise-wide view for evaluating defense business system investments for certification and periodic review. In addition, Section 901 requires the certification of any defense business system with a total cost in excess of \$1 million over the period of the future-years defense program, regardless of type of funding or whether any development or modernization is planned.

On June 29, 2012, the DCMO issued guidance that implemented the revised investment review process. The DCMO guidance requires that DoD components ensure that defense business systems are compliant with all applicable DoD Business Enterprise Architecture's laws, regulations, and policy; data standards; and business rules.

### **Review of Internal Controls**

DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls providing reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal weaknesses in the program management of DAI. Specifically, the DAI PMO did not have procedures and periodic reviews to ensure proper implementation of reporting attributes, SFIS Transaction Library posting logic, and the DoD SCOA before deploying DAI. In addition, the DAI PMO did not have controls to prevent processing of manual vouchers without all the required reporting attributes. These controls were missing because the DAI PMO incorrectly configured reporting attributes, did not establish effective controls over manual vouchers, did not have complete system documentation containing the posting logic configured in DAI, and excluded 3 out of 1,064 accounts in the DoD SCOA because agencies did not use these accounts. We will provide a copy of the report to the senior official responsible for internal controls in DLA.

# **Finding. Defense Agencies Initiative Did Not Fulfill Selected Functional Capabilities Needed to Generate Reliable Financial Statements**

DAI did not fulfill functional capabilities needed to generate reliable financial data. Specifically, DAI PMO officials did not:

- consistently transmit to DDRS-B 9 of 53 required USSGL reporting attributes needed to generate reliable financial statements. This occurred because DAI PMO officials did not follow guidance when configuring DAI and did not configure DAI to prevent processing manual vouchers without all required reporting attributes.
- demonstrate that DAI could correctly record transactions in compliance with the SFIS Transaction Library. Of 1,612 general ledger account codes, 1,551 were missing in the posting logic documentation provided by the DAI PMO. This occurred because the DAI PMO did not have complete system documentation that defined the DAI transaction codes and posting logic used for each financial event that would result in an entry to the general ledger.
- include 3 out of 1,064 accounts contained in the DoD SCOA. This occurred because DAI PMO officials believed that not all accounts contained in the DoD SCOA were necessary because the organizations that used DAI did not use these accounts.

The root cause of these issues was that the DCMO and the USD(C)/CFO did not ensure that the DAI PMO properly configured the reporting attributes, SFIS Transaction Library, and DoD SCOA before deploying the system.

As a result, financial data used for the preparation of financial statements were unreliable and created uncertainty on how \$402 million out of \$9.3 billion was reported on the FY 2011 financial statements for the Missile Defense Agency (MDA), the Defense Technical Information Center (DTIC), and the Uniformed Services University of the Health Services (USUHS). In addition, without the ability to review the entire DAI transaction code library and compare it with the SFIS Transaction Library, neither the DAI PMO nor auditors can validate that the DAI posting logic records business transactions as required by the SFIS Transaction Library. Furthermore, without a complete DoD SCOA, Defense organizations do not fully comply with USSGL requirements, and financial information will be incomplete or misstated. Consequently, there is an increased risk of DoD not achieving an auditable SBR in FY 2014 and not having fully auditable financial statements by FY 2017.

## United States Standard General Ledger Reporting Attributes Need to be Consistently Transmitted

During FY 2011, the DAI PMO did not consistently transmit to DDRS-B 9 of 53 required

*...the DAI PMO did not consistently transmit to DDRS-B 9 of 53 required USSGL reporting attributes...*

USSGL reporting attributes needed to generate reliable financial statements. This occurred because DAI PMO officials did not follow Treasury Financial Manual, USSGL Supplement, Part 2, Section IV when configuring DAI and did not configure DAI to prevent processing manual vouchers without all required reporting attributes.

### **Reporting Attributes Needed to Prepare Reliable Financial Statements**

DAI did not consistently transmit all the required USSGL reporting attributes for MDA, DTIC, and USUHS. USSGL attributes are one component of detailed data in agencies' financial systems related to external reporting of financial statements. Attributes further describe a USSGL account in order to meet a specific reporting requirement. USSGL specifies that in order to meet external reporting requirements, agencies need data at a level below the 4-digit USSGL account. Agencies' systems must capture this information at the transaction level by recording transactions using USSGL 4-digit accounts plus attributes. During FY 2011, the 9 reporting attributes that DAI did not consistently transmit were:

- **The Custodial/Non-Custodial Indicator** identifies receipts and revenue collected on behalf of another agency. Agencies use this attribute to prepare the Statement of Custodial Activity, however, DoD does not prepare this statement, custodial activity is reported as footnote to the Financial Statements. USSGL required this attribute for eight accounts. DAI did not transmit the attribute for account 6790.900, "Other Expenses Not Requiring Budgetary Resources." DAI did not consistently report this attribute for the months of June 2011 and September 2011.
- **The Budget Enforcement Act (BEA) Category Indicator** classifies funds for spending as Mandatory, Discretionary, and Emergency. Agencies use this attribute to prepare the "Report on Budget Execution and Budgetary Resources" [Standard Form (SF) 133]. USSGL required this attribute for 10 accounts. DAI did not transmit the attribute consistently for account 4210.9000, "Anticipated Reimbursements and Other Income" for the months of June 2011 and September 2011.
- **The Availability Time Indicator** indicates whether a specific amount of funding is available for execution in the current reporting period, or in a subsequent reporting period. Agencies use this attribute to prepare the SF 133. USSGL required this attribute for accounts 4610.9000, "Allotments – Realized Resources," 4620.9000, "Unobligated Funds Exempt from Apportionment," and 4700.9000, "Commitments – Programs Subject to Apportionment." DAI did not consistently report this attribute for any of the accounts required by USSGL for the months of

June 2011 and September 2011. For FY 2012 and forward, USSGL does not require this attribute for the SBR.

- **The Federal/Non-Federal Indicator** identifies the type of entity involved in transactions with the reporting entity. Agencies use this attribute to prepare the Balance Sheet (BS), the Statement of Net Cost (SNC), the SBR, the SF 133, and the FMS 2108. USSGL required this attribute for 26 accounts. In June 2011, DAI did not transmit this attribute for account 1310.0940, “Accounts Receivable-Undistributed Collections-Installation Level.” In September 2011, DAI did not consistently transmit this attribute for the following accounts.

Proprietary accounts:

- 1310.0940, “Accounts Receivable-Undistributed Collections-Installation Level;”
- 1310.9000, “Accounts Receivable;”
- 8801.9000, “Offset for Purchases of Assets;”
- 8802.1720, “Purchases of Property, Plant, and Equipment-Construction-in-Progress;” and
- 5325.9000, “Administrative Fees Revenue.”

Budgetary accounts:

- 4221.9000, “Unfilled Customer Orders Without Advance;”
  - 4222.9000, “Unfilled Customer Orders With Advance;”
  - 4251.9000, “Reimbursements and Other Income Earned – Receivable;” and
  - 4252.9000, “Reimbursements and Other Income Earned – Collected”
- **The Budget Function/Sub-Function Code** classifies financial data according to the major purpose served. USSGL required this attribute for 12 accounts. DAI did not consistently transmit this attribute for any of the accounts required by USSGL for the months of June 2011 and September 2011.
  - **The Definite/Indefinite Flag** indicates whether the amount of budget authority is definite (a specified amount, or a “not to exceed” amount specified) or indefinite (determined by other factors). The two acceptable values are either “D” or “I” but the DAI’s DDRS-B output file reported the values as either “Y” or “N.” USSGL required this attribute for account 4119.9000, “Other Appropriations Realized.” DAI did not correctly report this attribute as of June 2011 but the DAI PMO corrected it as of September 2011. USSGL requires this attribute to be provided by the Federal Agencies’ Centralized Trial Balance System II (FACTSII), and not by the agencies. The SFIS Governance Board eliminated this attribute from SFIS version 9.0.
  - **The Prior Year Adjustment Code** identifies changes to obligated or unobligated balances that occurred in the previous fiscal year but were not recorded in the appropriate Treasury Account Fund Symbol as of October 1 of the current fiscal



year. Agencies use this attribute to prepare the SF 133 and the FMS 2108. USSGL required this attribute for 16 accounts. DAI did not report this attribute for any of the accounts required by USSGL for the months of June 2011 and September 2011.

- **The Apportionment Category B Code** identifies the Category B program used on the apportionment. Category B is one of four categories the Office of Management and Budget uses to apportion budgetary resources. Category B apportions budgetary resources by activities, projects, objects or a combination of these categories. Agencies use this attribute to prepare the SF 133. USSGL required this attribute for four accounts. DAI did not report this attribute for any of the accounts required by USSGL for the months of June 2011 and September 2011.
- **The Program Indicator Code** identifies the amount of cost or revenue directly or indirectly traceable to programs. Agencies use this attribute to prepare the SNC. USSGL required this attribute for eight accounts. DAI did not report this attribute for the months of June 2011 and September 2011.

### ***Defense Agencies Initiative Configuration Needs to Be Updated***

DAI PMO officials did not follow the Treasury Financial Manual, USSGL Supplement, Part 2, Section IV when configuring DAI.

- In 2010, the DDRS PMO updated DDRS-B to comply with changes in the USSGL. However, DAI PMO officials did not update DAI to comply with these updated requirements. This affected the Custodial/ Non-Custodial Indicator, the BEA Category Indicator Code, and the Availability Time Indicator. To ensure DAI's ability to generate reliable financial data, the DAI PMO should maintain DAI's configuration current with changes to USSGL and SFIS requirements.
- DAI PMO officials did not follow guidance contained in the Treasury Financial Manual, USSGL Supplement, Part 2, Section IV, "Account Attributes for proprietary accounts and FACTS II Reporting- August 2010," which required the system to transmit these attributes for financial reporting. This affected the Apportionment Category B Code, the Prior Year Adjustment Code, and the Program Indicator Code. DAI PMO officials indicated that they did not configure these attributes in DAI because SFIS had not defined them. In addition, current DoD policy prevents the use of the Program Indicator Code to account for program cost, because the policy requires program cost to be reported in the SNC by appropriation rather than by program. Without these attributes, DAI could not generate complete and reliable financial data. Therefore, the DAI PMO should configure DAI to report the Apportionment Category B Code, the Prior Year Adjustment Code, and the Program Indicator Code attributes in compliance with USSGL requirements. To allow the use of the Program Indicator Code in DAI, the USD(C)/CFO should revise the guidance for preparing the SNC contained in the DoD FMR, volume 6B, chapter 5, paragraph 050301.B to require the

accumulation and reporting of major program costs by program, as required by OMB Circular A-136.

- DAI PMO did not configure DAI to populate the Budget Function/Sub-Function attribute for all the required funds and accounts, populate the Federal/ Non-Federal Indicator attribute for all required budgetary accounts, and populate the Definite/ Indefinite Flag attribute with the values prescribed by USSGL. DAI PMO officials stated that they had incorrectly configured these attributes for funds, treasury symbols, and attribute values. To ensure DAI's ability to generate reliable financial data, the DAI PMO should configure DAI to populate these attributes for the funds and accounts required by USSGL, and with the USSGL prescribed values.

### ***Manual Vouchers Need Complete Information***

DAI PMO officials did not configure DAI to prevent processing manual journal vouchers without all required reporting attributes. DAI PMO officials stated that if a user created a manual journal voucher without the Federal/ Non-Federal Indicator, DAI would process the incomplete manual journal voucher. Consequently, DAI would transmit incomplete information to DDRS-B. Accordingly, the DAI PMO should modify DAI to prevent users from creating manual journal vouchers without all the reporting attributes required by USSGL and SFIS.

### ***Potential Impact on Financial Statements***

Because DAI did not transmit 9 of the 53 required reporting attributes, financial data used for the preparation of financial statements is unreliable. Unreliable amounts reported in

*Because DAI did not transmit 9 of the 53 required reporting attributes, financial data used for the preparation of financial statements is unreliable.*

the Federal/Non-Federal Indicator attribute is one example shown in the following table. Agencies report accounts 4221.9000, "Unfilled Customer Orders Without Advance," 4251.9000, "Reimbursements and Other Income Earned- Receivable," and 4252.9000, "Reimbursements and Other Income Earned- Collected" on various

sections of the Statement on Budgetary Resources, such as "Uncollected Payments from federal Sources." When the attribute is not populated, DAI defaults to a Non-Federal attribute. Therefore if the attribute is not reported consistently, sections in the Statement of Budgetary Resources, such as "Uncollected Payments from federal Sources" will be misstated, and the Statement of Budgetary Resources as a whole, could be misstated up to \$1.3 billion. The table shows the amounts of unreliable financial data contained in the DDRS-B file as of September 30, 2011, for 4 of 9 required attributes that DAI did not transmit, creating uncertainty on how \$402 million out of \$9.3 billion was reported on FY 2011 financial statements for the three Defense Agencies using DAI as of September 2011.

**Table. Potentially Unreliable Financial Data as of September 30, 2011\***

<b>Attribute</b>	<b>Unreliable Amounts</b>	<b>Overall Amount</b>	<b>Financial Statement/Report</b>
Custodial/Non-Custodial Indicator	\$(536,495.00)	\$101,150,774.76	SNC, Statement of Custodial Activity CA Footnote to the F/S
BEA Category Indicator Code	495,409.86	1,136,551,844.13	SF133
Availability Time Indicator	(905,824,695.12)	(905,824,695.12)	SF133
<i><b>Federal/Non-Federal Indicator</b></i>	<i><b>1,307,919,199.90</b></i>	<i><b>8,973,058,354.70</b></i>	<i><b>SNC, Balance Sheet, SF133, FMS 2108, SBR</b></i>
<b>TOTAL</b>	<b>\$402,053,419.64</b>	<b>\$9,304,936,278.47</b>	

\* The amounts shown represent the combined dollar amounts transmitted to DDRS-B for MDA, USUHS, and DTIC for Fiscal Year Ended September 30, 2011.

The remaining 5 of the 9 attributes did not have a financial impact for FY 2011 financial reporting. Specifically:

- the Budget Function/Sub-function is a reporting attribute required by USSGL but does not affect financial statements or other reports.
- the Prior Year Adjustment Code, Apportionment Category B Code, and the Program Indicator Code are reporting attributes required by USSGL. However, the DAI PMO stated they did not configure these attributes because SFIS had not defined them.
- the Definite/Indefinite Indicator reported incorrect values to DDRS-B due to an incorrect setting that the DAI PMO corrected during audit fieldwork. Also, this attribute is supplied by the FACTSII system and not by the agency.

## **Compliance with Standard Financial Information Structure Transaction Library**

The DAI PMO did not demonstrate that DAI could correctly record transactions in compliance with the SFIS Transaction Library. This occurred because the DAI PMO did not have complete system documentation that defined the DAI transaction codes and posting logic used for each financial event that would result in an entry to the general ledger. The core financial system requirements state that a core financial system must have the automated functionality to consistently record like accounting events using standard transactions and to define the general ledger account postings used by each standard transaction. The standard transactions should be consistent with USSGL posting logic and include all appropriate propriety, budgetary, and memorandum accounts.

DAI PMO officials used the posting logic embedded in Oracle Federal Financial Suite. In addition, they developed a posting logic to add budgetary and additional proprietary

*The DAI General Ledger Posting Logic documentation did not contain 1,551 out of 1,612 accounts included in the DAI chart of accounts.*

transactions to DAI. DAI PMO officials were unable to provide system-generated documentation showing the DAI transaction codes and posting logic used for each financial event that would result in an entry to the general ledger. Instead, DAI PMO officials developed a

document titled “DAI General Ledger Posting Logic.” On July 29, 2011, DFAS provided the final version of this document. Although DFAS annotated the document as a draft version, DAI PMO officials stated it was the final product. The DAI General Ledger Posting Logic documentation did not contain 1,551 (96 percent) out of 1,612 accounts included in the DAI chart of accounts. Because DAI PMO officials did not provide a complete system posting logic, the DAI PMO has limited assurance that it has correctly implemented the USSGL posting logic for financial transactions. In addition, without the ability to review the entire DAI transaction code library and compare it with SFIS Transaction Library, neither the DAI PMO nor auditors can validate that the DAI posting logic records business transactions as required by the SFIS Transaction Library.

To ensure DAI adequately records business events to the general ledger, the DAI PMO should develop complete system documentation that crosswalks the DAI transaction library to the current USSGL SFIS transaction library.

## **Defense Agencies Initiative Needs a Complete Chart of Accounts**

The DAI PMO did not include within the DAI chart of accounts all accounts contained in the DoD SCOA. Specifically, DAI did not include 3 of 1,064 accounts contained in the DoD SCOA. The three DoD accounts missing from DAI’s chart of accounts were:

- 2141.9000 Accrued Interest Payable–Debt
- 2191.9000 Employee Health Care Liability Incurred but Not Reported
- 6610.9000 Cost Capitalization Offset

This occurred because the DAI PMO officials decided not all accounts in the DoD SCOA were necessary since the three defense organizations that used DAI as of September 2011 did not use these accounts. However, plans for DAI include deployment to 28 organizations, some of which may require posting transactions to the 3 missing accounts.

In addition, the DoD FMR lacked clarity regarding the inclusion of all USSGL accounts. In accordance with DoD FMR volume 1, chapter 7, paragraph 070502:

The USSGL shall be used regardless of the sources of funds. Fund identification of financial resources shall be maintained in order to (1) disclose compliance with financial authorizations and (2) prepare reports on the status of appropriations and funds for Congress, OMB, and

Treasury. The USSGL account structure is intended to be the basic structure required for consistent treatment of similar transactions. **Not all accounts are needed by all accounting entities.** [Emphasis added]

The last sentence could lead to misinterpretation and impair DoD's consistent implementation of the DoD SCOA in Components' target general ledger accounting systems.

On March 24, 2012, a representative from the USD(C)/CFO, Business Integration Office stated the intended message of the DoD FMR volume 1, chapter 7, paragraph 070502 is to ensure that entities with general funds include all DoD SCOAs designated as general funds. Entities using working capital funds should include all DoD SCOAs designated as working capital funds. In addition, for entities using a combination of general and working capital funds, they are to include all DoD SCOAs designated as general and working capital funds.

Therefore, the USD(C)/CFO should revise DoD FMR volume 1, chapter 7, paragraph 070502 to require core financial systems to include all of the accounts in the DoD SCOA that are required for the type of fund (either general fund, working capital fund, or both) applicable to the system. If an exemption to this requirement is needed, and can be justified, then the Defense Business Council should be the sole authority for granting the exemption.

## **Deputy Chief Management Officer and Under Secretary of Defense (Comptroller)/Chief Financial Officer Oversight Needs Improvement**

DCMO and USD(C)/CFO did not ensure that the DAI PMO properly implemented the reporting attributes, the SFIS Transaction Library, and the DoD SCOA before deploying the system. Although DCMO and USD(C)/CFO officials provided guidance and met regularly with DAI PMO officials, they did not provide sufficient oversight to ensure DAI complied with USSGL and SFIS requirements.

DoD Directive 5105.82 mandates that DCMO ensure that business transformation policies and programs are designed and managed to improve performance standards, economy, and efficiency. DoD Directive 5118.03 mandates that, in coordination with DCMO, USD(C)/CFO provide for the design, development, and installation of financial systems and for management improvement programs throughout the DoD, especially those related to financial management. Also, DoD Directive 5118.03 states that USD(C)/CFO is to oversee development and maintenance of integrated DoD accounting and financial management systems, including financial reporting and management controls.

Without adequate oversight from DCMO and USD(C)/CFO, there is no assurance that the DAI PMO will maintain the DAI configuration in compliance with the USSGL, the SFIS Transaction Library, and the DoD SCOA. DCMO, in coordination with

USD(C)/CFO, should provide adequate oversight to ensure that DAI complies with the current USSGL, SFIS Transaction Library, and SFIS requirements. DCMO, in coordination with USD(C)/CFO, should conduct a one-time validation that the DAI has implemented the reporting attributes, posting logic, and FY 2013 DoD SCOA needed to support financial reporting of general and working capital funds. In addition, DCMO should develop a procedure to validate that the Pre-Certification Authority certified accurately that the DAI Initiative PM implemented all subsequent updates to the reporting attributes, SFIS Transaction Library or DoD SCOA.

Until August 1, 2011, BTA oversaw the activities of the DAI PMO. BTA was responsible for ensuring the DAI PMO implemented DAI in accordance with the DoD Business Enterprise Architecture and SFIS. Due to the disestablishment of BTA, the DLA Information Operations, Program Executive Office assumed responsibility for the DAI PMO. The Program Executive Office is responsible for ensuring the DAI PMO develops and sustains DAI in compliance with the DoD Business Enterprise Architecture and SFIS. *Therefore, to enhance oversight of DAI, the Director, DLA should annually review the DAI configuration to ensure the DAI complies with the DoD Business Enterprise Architecture and SFIS pursuant to Section 901 of the National Defense Authorization Act for Fiscal Year 2012 (section 2222, title 10 United States Code [2011]), and DoD FMR volume 1, chapter 4.*

## Increased Risk to Financial Statements

Because the DAI PMO did not transmit to DDRS-B all the required USSGL reporting attributes and did not demonstrate that DAI could record transactions in compliance with the SFIS Transaction Library, there is an increased risk of DoD not achieving an auditable SBR in FY 2014 and not having auditable financial statements by FY 2017. The DoD Financial Improvement and Audit Readiness Plan states that the primary objective of DAI is to achieve a system environment that is auditable and compliant with the Chief Financial Officer Act. It further states that DAI will improve the other defense organizations' ability to achieve and sustain auditable SBR balances. Therefore, the DAI PMO needs to evaluate the DAI system implementation for compliance with the DoD Financial Improvement and Audit Readiness Plan and ability to support the Department's financial statements.

*There is an increased risk of DoD not achieving an auditable SBR in FY 2014 and not having auditable financial statements by FY 2017.*

## Management Actions

During the audit, the DAI PMO added the following three missing accounts to the DAI chart of accounts. Therefore, as of September 2011, DAI fully complied with the DoD SCOA.

- 2141.9000 Accrued Interest Payable–Debt
- 2191.9000 Employee Health Care Liability Incurred but Not Reported
- 6610.9000 Cost Capitalization Offset

In addition, the DAI PMO corrected 2 of the 9 USSGL required reporting attributes:

- Definite Indefinite Indicator (corrected as of September 30, 2011)
- Budget Function/Sub-function (corrected as of January 31, 2012)

## **Deputy Chief Management Officer Comments on the Finding and Our Response**

Summaries of DCMO comments on the finding and our response are in Appendix C.

## **Revised Recommendations**

On the basis of comments from the Director, Business Integration Office, who responded for the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Chief Management Officer (DCMO), we revised Recommendations 2.b and 3.b.

## **Recommendations, Management Comments, and Our Response**

### **1. We recommend that the Project Manager of the Defense Agencies Initiative:**

**a. Modify the system to consistently report the following six attributes in accordance with current United States Standard General Ledger and Standard Financial Information Structure requirements: Custodial/Non-Custodial Indicator, the Budget Enforcement Act Category Indicator, the Availability Time Indicator, the Federal/Non-Federal Indicator, the Prior Year Adjustment Code, and the Apportionment Category B Code.**

### ***Defense Agencies Initiative Program Manager Comments***

The Director, Defense Logistics Agency Information Operations, responded for the Defense Agencies Initiative Program Manager. She agreed and stated that Defense Logistics Agency Information Operations management corrected the six attributes listed in our recommendation. She also stated that Defense Logistics Agency Information Operations management observed that DAI financial reports included the correct attributes.

## ***Our Response***

The Director, Defense Logistics Agency Information Operations, comments were responsive. We require no additional comments.

**b. Implement controls to prevent users from creating manual journal vouchers without all the reporting attributes required by the United States Standard General Ledger and the Standard Financial Information Structure.**

## ***Defense Agencies Initiative Program Manager Comments***

The Director, Defense Logistics Agency Information Operations, responded for the Defense Agencies Initiative Program Manager. She agreed and stated that Defense Logistics Agency Information Operations management has developed a process to review the controls for manual journal voucher entries and to ensure users are aware of the required attributes. She also stated that the current review and approval workflow provides quality checks to ensure each voucher contains the applicable attributes.

## ***Our Response***

The Director, Defense Logistics Agency Information Operations, comments were responsive. We require no additional comments.

**c. Develop complete system documentation that includes a crosswalk of the Defense Agencies Initiative transaction library to the United States Standard General Ledger transactions library.**

## ***Defense Agencies Initiative Program Manager Comments***

The Director, Defense Logistics Agency Information Operations, responded for the Defense Agencies Initiative Program Manager. She agreed and stated that Defense Logistics Agency Information Operations management will develop the crosswalk by the end of FY 2013. She also stated that DAI is conducting a Federal Financial Management Improvement Act review, and the results are due by May 2013.

## ***Our Response***

The Director, Defense Logistics Agency Information Operations, comments were responsive. We require no additional comments.

**2. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:**

**a. Revise the guidance contained in the DoD Financial Management Regulation, volume 6B, chapter 5, paragraph 050301.B. to require costs of program reported in the Statement of Net Cost to be accounted for by program costs and not by appropriation, enabling the use of the Program Indicator Code attribute.**



## ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The Director, Business Integration Office, responded for the Under Secretary of Defense (Comptroller)/Chief Financial Officer. He did not agree and stated that the guidance in the DoD Financial Management Regulation (FMR), Volume 6B, Chapter 5, paragraph 050301.B, is consistent with the Office of Management and Budget Circular No. A-136, Financial Reporting (Circular No. A-136). He stated that presenting the Statement of Net Cost by appropriation fulfills the Office of Management and Budget requirements because it is a meaningful grouping as defined by Section II.4.4.1. of Circular No. A-136. The Director, Business Integration Office, also stated that until the majority of DoD systems are upgraded to collect costs based on missions and outputs performance measures, revision of the DoD Financial Management Regulation to report the Statement of Net Cost in any other manner would be misleading or confusing.

## ***Our Response***

The Director, Business Integration Office, comments were not responsive. The Statement of Net Cost represents the net cost of programs and organizations of the Department that are supported by appropriations or other means. The intent of the Statement of Net Cost is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems do not capture and report the lower level costs for major programs. We request that the Director, Business Integration Office, reconsider his position on our recommendation and provide comments on the final report.

**b. Clarify the guidance regarding the implementation of the DoD Standard Chart of Accounts contained in the DoD Financial Management Regulation, Volume 1, Chapter 7, paragraph 070502 to state that all core financial systems must include all the accounts in the DoD Standard Chart of Accounts that are required for the type of fund (either general fund, working capital fund, or both). DoD senior management should conduct sufficient business process reengineering to clearly define which DoD Standard Chart of Accounts each fund type is required to populate in order to support financial reporting. ERP systems supporting the fund type should contain the identified accounts. If the need for an exemption can be justified, then the Defense Business Council should be the sole authority for granting the exemption and only after excessive scrutiny by personnel for the Offices of the Deputy Chief Financial Officer and Deputy Chief Management Officer as to why the system is unable to comply.**

## ***Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments***

The Director, Business Integration Office, responded for the Under Secretary of Defense (Comptroller)/Chief Financial Officer. He partially agreed and stated that DoD Financial Management Regulation will be updated to clarify the guidance regarding the implementation of the DoD Standard Chart of Accounts as recommended. However, the

Director, Business Integration Office stated that the Office of the Deputy Chief Financial Officer drafted a policy memorandum that provides guidance requesting system-level exemption of certain accounts based on non-applicability to the supported organization. He stated that this memorandum is currently in formal coordination and once finalized will be incorporated into the DoD Financial Management Regulation.

### ***Our Response***

The Director, Business Integration Office, comments were partially responsive. We agree that there can be exemptions to the DoD Standard Chart of Accounts at the component level. Accordingly, we revised Recommendation 2.b, to state that DoD senior management should clearly define which DoD Standard Chart of Accounts each fund type is required to populate in order to support financial reporting. If the need for an exemption can be justified, then the Defense Business Council should be the sole authority for granting the exemption. We request that the Director, Business Integration Office, provide comments on the revised recommendation in the final report.

### **3. We recommend that the Deputy Chief Management Officer, in coordination with Under Secretary of Defense (Comptroller)/Chief Financial Officer:**

**a. Conduct a one-time validation that the Defense Agencies Initiative has implemented the reporting attributes, posting logic, and FY 2013 DoD Standard Chart of Accounts for the business events needed to support financial reporting of general and working capital transactional data as directed by DoD Policy.**

### ***Deputy Chief Management Officer Comments***

The Deputy Chief Management Officer partially agreed. She stated that Defense Agencies Initiative was 99.72 percent compliant with the DoD Standard Chart of Accounts. The Deputy Chief Management Officer also stated that using DoD funds to perform a one-time validation on Defense Agencies Initiative would not be the most advantageous use of taxpayer dollars as there are other systems with far greater need of implementation assistance. However, she stated that the Offices of the Deputy Chief Financial Officer and Deputy Chief Management Officer will schedule a full Standard Financial Information Structure validation as schedule and dollars permit.

### ***Our Response***

The Deputy Chief Management Officer comments were partially responsive. We acknowledge that the Defense Agencies Initiative was 99.72 percent compliant with the DoD Standard Chart of Accounts. However, the DoD Standard Chart of Accounts is only one aspect of our finding and recommendation. Our intent is that the Deputy Chief Management Officer, in coordination with Under Secretary of Defense (Comptroller)/Chief Financial Officer, conduct a one-time validation of the Defense Agencies Initiative to ensure the system complies, not only with the DoD Standard Chart of Accounts, but the required posting logic and reporting attributes. To ensure the Defense Agencies Initiative can generate reliable financial data, the Deputy Chief Management Officer should make it a priority to perform this one-time validation of the Defense Agencies Initiative. We request that the Deputy Chief Management Officer

reconsider her position on our recommendation and provide comments on the final report on a plan of action to perform the one-time validation of the Defense Agencies Initiative.

**b. Establish procedures to validate that the Pre-Certification Authority certified accurately that the Defense Agencies Initiative Program Manager implemented all subsequent updates to reporting attributes, Standard Financial Information Structure Transaction Library, and DoD Standard Chart of Accounts.**

### ***Deputy Chief Management Officer Comments***

The Deputy Chief Management Officer partially agreed and stated that all system owners must certify to the Defense Business Council that their systems comply with the Business Enterprise Architecture, including the Standard Financial Information Structure and the latest DoD Standard Chart of Accounts. Therefore, the Deputy Chief Management Officer recommended directing the recommendation to the Director, Defense Logistics Agency.

### ***Our Response***

The Deputy Chief Management Officer comments were partially responsive. Our intent is that the Deputy Chief Management Officer improve oversight of the implementation of Enterprise Resource Planning systems. In addition, the Defense Logistics Agency Information Operations, agreed with our recommendation to perform annual reviews of the Defense Agencies Initiative to ensure that the Defense Agencies Initiative Program Management Office has correctly implemented the reporting attributes, Standard Financial Information Structure Transaction Library posting logic, and DoD Standard Chart of Accounts. Accordingly, we do not agree with her recommendation to direct Recommendation 3.b to the Director, Defense Logistics Agency. Therefore, we revised Recommendation 3.b. to state the Deputy Chief Management Officer should establish procedures to validate that the Pre-Certification Authority certified accurately that the Defense Agencies Initiative Program Manager implemented all subsequent updates to reporting attributes, Standard Financial Information Structure Transaction Library, and DoD Standard Chart of Accounts. We request that the Deputy Chief Management Officer provide comments on the revised recommendation in the final report.

**4. We recommend that the Director, Defense Logistics Agency, annually review the Defense Agencies Initiative to ensure that the Defense Agencies Initiative Program Management Office has correctly implemented the reporting attributes, Standard Financial Information Structure Transaction Library posting logic, and DoD Standard Chart of Accounts to support financial reporting.**

### ***Director, Defense Logistics Agency Comments***

The Director, Defense Logistics Agency Information Operations, responded for the Director, Defense Logistics Agency. She agreed and stated that Defense Logistics Agency Information Operations management is performing a Federal Financial Management Improvement Act review, which includes extensive testing of Standard Financial Information Structure requirements. She stated that the review is scheduled to be completed by July 2013. The Director, Defense Logistics Agency Information

Operations, also stated that based on the results of the Federal Financial Management Improvement Act review management will implement an appropriate review schedule.

***Our Response***

The Director, Defense Logistics Agency Information Operations, comments were responsive. We require no additional comments.

## **Appendix A. Scope and Methodology**

We conducted this performance audit from April 2011 through February 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed DAI's chart of accounts, for the months of June 2011, September 2011 and January 2012, to determine whether it complied with USSGL. Specifically, we determined whether DAI's chart of accounts contained the general ledger account codes required for financial reporting. We also compared DAI's chart of accounts to the DoD SCOA to determine whether it included all the applicable DoD general ledger account codes.

We reviewed the DAI transaction library and posting logic to determine whether it complied with the requirements of USSGL at the transaction level. To test DAI's customized transaction library and posting logic for compliance with USSGL, we requested the PMO to provide a crosswalk of the DAI transaction library to the USSGL Transaction library. We compared the partial crosswalks provided by the PMO to the USSGL transaction library. We reviewed the results of reconciliations performed by the Defense Finance and Accounting Service (DFAS) on quarterly trial balances for MDA, DTIC, and USUHS. We also reviewed adjusting journal entries performed by DFAS for MDA, DTIC, and USUHS.

We compared the DAI output files to DDRS-B for MDA, DTIC and USUHS, for the months of June 2011, September 2011 and January 2012, to determine whether DAI was reporting to DDRS-B the reporting attributes required by USSGL and SFIS.

We interviewed key personnel from PMO, DFAS, DTIC, MDA, and USUHS to discuss their roles in ensuring DAI operates properly. We also reviewed policies and procedures to determine whether the PMO, the DCMO, and the USD(C)/CFO provided adequate oversight on the implementation of DAI at MDA, USUHS, and DTIC.

We observed personnel at DTIC, MDA, and USUHS who input data into DAI to create Military Interdepartmental Purchase Requests. Additionally, we observed the PMO progress through various DAI screens during a "walk-through" to show how the system records purchase requests and the account codes posted.

We reviewed MDA trial balances and adjusting journal entries prepared under DAI and the legacy system to determine whether DAI has improved the accuracy of MDA financial data. We analyzed quarterly trial balances received from DFAS accountants to determine whether DAI has reduced the number of adjusting entries needed to balance the agency's ledgers. We reviewed the journal entries logs to determine the types of adjusting entries done under the legacy system versus DAI.

## **Use of Computer-Processed Data**

To perform this audit, we used FY 2011 transaction code mappings and DDRS-B data feed files compiled by DAI PMO and DFAS. We discussed data integrity with financial management and system design experts, agency officials and officials at organizations involved with the development of DAI. We used the SFIS transaction library obtained from the PMO website, in combination with the DFAS computer generated posting logic document. We used the transaction code listing from the PMO's website to validate DAI's posting logic. We validated the accuracy of the computer generated DoD Standard Chart of Accounts and SFIS requirements obtained from the Business Transformations Agency's website. We also reviewed computer generated transactional data files for anomalies, such as missing or incorrect USSGL attribute values. We obtained a list of the USSGL chart of accounts, account transaction codes, posting logic, and attributes from the U.S. Treasury FMS website. We discussed the data reliability issues in our finding. We believe the computer-processed data we used was adequate to support the findings and conclusions in this report.

## **Prior Coverage**

During the last five years, the Government Accountability Office (GAO) and the DoD Inspector General have issued two reports discussing Defense Agencies Initiative (DAI), among other enterprise resource planning systems. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted DoD IG reports can be accessed over the Internet at <http://www.dodig.mil>.

### **GAO**

GAO Report No. 11-53, "DoD Business Transformation: Improved Management Oversight of Business System Modernization Efforts Needed," October 7, 2010

### **DoD IG**

DoD IG Report No. DODIG-2012-111, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals," July 13, 2012

## Appendix B. Defense Agencies Initiative Deployment Schedule for DoD Agencies

Defense Agency	Scheduled Deployment (FY)
Defense Technical Information Center**	2010
Missile Defense Agency**	2011
Uniformed Services University of the Health Services**	2011
Defense Threat Reduction Agency	2012
Defense Technology Security Administration	2012
Defense Prisoner of War/Missing Personnel Office	2012
TRICARE Management Activity-Headquarters	2012
Defense Advanced Research Projects Agency	2013
Defense Acquisition University	2013
Defense Security Service	2013
National Defense University	2013
Office of Economic Adjustment	2013
Defense Media Activity	2013
Defense Finance and Accounting Service	2014
Defense Human Resource Activity	2014
DoD Office of Inspector General	2014
DoD Education Agency	2014
Defense Information Systems Agency	2014
Defense Contract Audit Agency	2015
Defense Contract Management Agency	2015
Defense Commissary Agency	2015
Defense Security Corporation Agency	2016
Washington Headquarters Services	2016
Pentagon Federal Protection Agency	2016
Defense Legal Services Agency	2016
Defense Test Resource Management Center	2016
Office of the Director, Operational Test and Evaluation	2016
Center for Countermeasures	2016

\*\* These DoD agencies were included in our testing for compliance with SFIS and USSGL requirements.

## **Appendix C. Deputy Chief Management Officer Technical Comments on the Finding**

### **Deputy Chief Management Officer and Under Secretary of Defense (Comptroller)/Chief Financial Officer Oversight Needs Improvement**

#### ***Deputy Chief Management Officer Comments***

DCMO stated that DAI was not designated a Pre-Major Automated Information System (MAIS) until February 2011. She also stated that as of March 7, 2013, the majority of deployments occurred while DAI was under the acquisition oversight of BTA. DCMO indicated that stating the failure to ensure proper implementation of DAI prior to deployment by the DCMO was an underlying cause of issues is inaccurate, as the DCMO had no oversight role until February 2011. In addition, DCMO stated that since the Pre-MAIS designation in February 2011, DCMO has been actively engaged with the DAI PMO in a variety of ways to include convening a DAI Principal's Group on a regular basis throughout 2012 to review program execution and status. This group consisted of Principals from the DCMO, Under Secretary of Defense (Comptroller)/Chief Financial Officer, Defense Information Systems Agency, and Defense Logistics Agency.

#### ***Our Response***

We acknowledge that DAI was not designated as a Pre-MAIS until February 2011. However, DoD Directive 5105.82, October 17, 2008, paragraph 4.g, states that the DCMO is responsible for ensuring “that business transformation policies and programs are designed and managed to improve performance standards, economy, and efficiency and that the Defense Business Transformation Agency (BTA) is attentive and responsive to the requirements of its organizational customers, both internal and external to the Department of Defense”. The Office of the DCMO provides oversight to programs through action officer/analyst oversight, the Defense Business Systems Management Committee, the Defense Acquisition and Investment Review Boards, and integrated product teams. Therefore, DCMO, in coordination with USD(C)/CFO, should provide adequate oversight to ensure that DAI complies with the current USSGL, SFIS requirements, and the USSGL SFIS Transaction Library.

### **Compliance with Standard Financial Information Structure Transaction Library**

#### ***Deputy Chief Management Officer Comments***

DCMO stated that the statement "DAI PMO officials did not demonstrate the DAI could correctly record transactions in compliance with the SFIS Transaction Library" is incorrect and misleading. She stated that the evidence supporting this statement within the context of this report is solely related to DAI lacking DAI posting accounts within the DAI documentation. DCMO also stated that there is no connection between DAI posting



accounts within the DAI system documentation that relates to the DoD USSGL Transaction Library. She stated that the report states that DoD IG did not compare DAI transactions with the DoD USSGL Transaction Library. DCMO stated that it is unclear how transaction compliance can be assessed without testing. Furthermore, she stated that DAI's documentation listing the posting accounts within the system has no relationship to a demonstration of whether or not DAI could correctly record transactions in compliance with the DoD USSGL Transaction Library. In addition, DCMO stated that there is no federal financial management guidance that requires system owners to take on the costly process of compiling and producing an entire DAI transaction code library and transaction level crosswalk.

### ***Our Response***

We acknowledge the DCMO concern that the lack of posting account documentation does not necessarily indicate a non-compliance with the DoD USSGL Transaction Library. However, DAI utilizes a customized transaction library that does not match the transaction codes and descriptions in the DoD USSGL Transaction Library. In addition, DAI contained transaction codes that often combined multiple DoD USSGL Transaction Library codes into a single transaction code. To adequately test DAI transactions for compliance with the posting logic contained in the DoD USSGL Transaction Library, we need a complete DAI transaction code library with a crosswalk to the DoD USSGL Transaction Library. Moreover, we need a complete DAI transaction library to adequately obtain a statistical sample of transactions representative of all business events handle by the system. We requested to the DAI PMO complete documentation with the system's posting logic during the audit, which they were not able to provide; therefore we could not test DAI's posting logic.

We also acknowledge that there is no federal financial management guidance that requires system owners to produce an entire transaction code library and transaction level crosswalk. However, a best practice promulgated by the U.S. Government Accountability Office's Federal Information System Controls Audit Manual, February 2009, states that "design documentation supporting the processing design exists for validation and change control purposes." The customized DAI transaction library is part of the system design for processing business events. Therefore, complete DAI transaction library documentation needs to exist to validate DAI transaction processing design and for adequately controlling the changes in the design.

# Office of the Under Secretary of Defense Comptroller/Chief Financial Officer Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100


5 2013

MEMORANDUM FOR ACTING ASSISTANT INSPECTOR GENERAL FOR DOD  
PAYMENTS AND ACCOUNTING OPERATIONS,  
DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR  
GENERAL

SUBJECT: Comments on the Department of Defense Inspector General Draft Audit Report,  
"Defense Agencies Initiative Did Not Contain Some Required Data Needed to  
Produce Reliable Financial Statements"

We received the subject February 5, 2013, draft audit report and reviewed your  
recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer.  
Detailed responses to your recommendations are attached.

We appreciate the opportunity to review and comment on the draft audit report. My staff  
point of contact is [REDACTED]. Please contact him at [REDACTED] or [REDACTED].

  
Andrew Morgan  
Director, Business Integration Office

Attachment:  
As stated



# Office of the Under Secretary of Defense Comptroller/Chief Financial Officer Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT

PROJECT NO. D2011-D000DB-0195.000, DATED FEBRUARY 5, 2013

“DEFENSE AGENCIES INITIATIVE DID NOT CONTAIN SOME REQUIRED DATA  
NEEDED TO PRODUCE RELIABLE FINANCIAL STATEMENTS”

RECOMMENDATION: 2.a. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise the guidance contained in the DoD Financial Management Regulation, volume 6B, chapter 5, paragraph 050301.B. to require costs of program reported in the Statement of Net Cost to be accounted for by program costs and not by appropriation, enabling the use of the Program Indicator Code attribute.

OUSD(C) RESPONSE: Non-concur. The DoD Financial Management Regulation (FMR), Volume 6B, Chapter 5, paragraph 050301.B, Instructions for the Preparation of the Statement of Net Cost, as written is consistent with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, Section II.4.4.1 defines a "major program" as "an agency's mission, strategic goals, functions, activities, services, projects, processes, or other meaningful grouping. To be meaningful, the grouping must be an organized set of activities, directed toward a common purpose or goal, which an entity undertakes, or proposes to undertake, to carry out its responsibilities. Program structure definition is at the entity's discretion." Hence, presenting the Statement of Net Cost by appropriation fulfills the OMB Circular A-136 guidance because it is a meaningful grouping. Until the majority of DoD systems are upgraded to collect costs based on missions and outputs performance measures, revision of the DoD FMR to report the Statement of Net Cost in any other manner would be misleading or confusing. Furthermore, since DoD properly divides programs by major appropriations, using the Program Indicator Code which is used solely with budgetary accounts is inconsistent with OMB A-136 guidance.

RECOMMENDATION: 2.b. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer clarify the guidance regarding the implementation of the DoD Standard Chart of Accounts contained in the DoD Financial Management Regulation, Volume 1, Chapter 7, paragraph 070502 to state that all core financial systems must include all the accounts in the DoD Standard Chart of Accounts that are required for the type of fund (either general fund, working capital fund, or both).

Attachment

## Office of the Under Secretary of Defense Comptroller/Chief Financial Officer Comments

OUSDC(C) RESPONSE: Partially Concur. The Department of Defense (DoD) Financial Management Regulation (FMR), Volume 1, Chapter 7 will be updated to provide clarifying guidance regarding the implementation of the DoD Standard Chart of Accounts (SCOA) as recommended. The OUSDC(C) Office of the Deputy Chief Financial Officer drafted a policy memo that addresses the DoD SCOA and its application within DoD financial management systems. The memo clarifies the accounts that must be implemented in financial systems for each type of fund, i.e., General Fund, Working Capital Fund, Special/Trust Fund, or a combination. However, all accounts are not always applicable to all financial systems. Therefore, the draft policy memo contains provisions and instructions for formally requesting system-level exemption of certain accounts based on non-applicability to the supported organization(s). This memo is currently in formal coordination and once finalized will be incorporated into the DoD FMR.

# Deputy Chief Management Officer Comments



DEPUTY CHIEF MANAGEMENT OFFICER  
9010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-9010

MAR - 7 2013

MEMORANDUM FOR ACTING ASSISTANT INSPECTOR GENERAL FOR DOD  
PAYMENTS AND ACCOUNTING OPERATIONS  
(DEPARTMENT OF DEFENSE INSPECTOR GENERAL)

SUBJECT: Comments to Draft Report, "Defense Agencies Initiative (DAI) Did Not Contain Some Required Data Needed to Produce Reliable Financial Statements" (Project No. D2011-D000DB-0195.000)

This memorandum responds to your request for comments on two recommendations contained in the draft audit report dated February 5, 2013. I partially concur with recommendations 3a and 3b. My detailed responses to the recommendations as well as to various statements made within the draft report are attached. A matrix containing all of my technical comments is being provided under separate cover.

While I agree with the intent of the finding discussed in the report, I take exception to the broad misrepresentation of facts presented in the draft report. Specifically, the report validates 99.72 percent compliance with the DoD Standard Chart of Accounts (SCOA). The audit finding and related recommendations however, focus on 3 missing accounts representing .28 percent of the total population, with no mention of near 100% compliancy. Further, the report identifies the 3 proprietary accounts as "an increased risk of DoD not achieving an auditable Statement of Budgetary Resources (SBR) in FY2014 and not having fully auditable financial statements by FY2017." To cite DoD Inspector General supporting evidence for not obtaining auditability because of 3 accounts representing .28 percent of the total population while also not remotely related to the SBR, is misleading and unfounded. Therefore, I recommend that the final report accurately document DAI's 99.72 percent compliance with the DoD SCOA toward obtaining auditability in FY2014 and FY2017, as evidenced within the report finding.

I appreciate the opportunity to review and comment on the draft report. If you have any questions, [REDACTED] is my point of contact for this response. [REDACTED] may be reached by telephone at [REDACTED] or by email at [REDACTED]

  
Elizabeth A. McGrath

Attachment:  
As stated





**DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL (DoD IG)  
DRAFT REPORT DATED FEBRUARY 5, 2013, PROJECT NO. D2011-D000DB-0195.000  
"DEFENSE AGENCIES INITIATIVE (DAI) DID NOT CONTAIN SOME REQUIRED  
DATA NEEDED TO PRODUCE RELIABLE FINANCIAL STATEMENTS"**

**OFFICE OF THE DEPUTY CHIEF MANAGEMENT OFFICER (DCMO)  
COMMENTS TO DoD IG RECOMMENDATIONS**

**RECOMMENDATION 3.a:** The Deputy Chief Management Officer, in coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer conduct a one-time validation that the Defense Agencies Initiative has implemented the reporting attributes, posting logic, and FY 2013 DoD Standard Chart of Accounts (SCOA) for the business events needed to support financial reporting of general and working capital transactional data as directed by DoD Policy.

**DCMO RESPONSE: Partially Concur.** As evidenced in this report, the DoD IG team validated that DAI is 99.72% compliant with the DoD SCOA. In a period of federal budget restraints, the DCMO does not believe it would be the most advantageous use of taxpayer dollars to focus DoD validation funds on a system that is evidenced in this report as being 99.72% compliant. As the DoD IG has noted in other audit reports, there are systems with far greater need of implementation assistance. Additionally, DAI was a voluntary member of the Standard Financial Information Structure (SFIS) validation pilot in 2011. The DCMO and the Office of the Under Secretary of Defense (Comptroller) will schedule a full SFIS validation as schedule and dollars permit.

**RECOMMENDATION 3.b:** The Deputy Chief Management Officer, in coordination with the Under Secretary of Defense (Comptroller)/Chief Financial Officer develop a procedure that ensures the validation of changes made after each subsequent issuance of the reporting attributes, SFIS Transaction Library or DoD Standard Chart of Accounts.

**DCMO RESPONSE: Partially Concur.** This recommendation should be identified as a Component Pre-Certification Authority requirement to validate to the Defense Business Council (DBC) that this has been accomplished on an annual basis. This recommendation should be moved in the report to a subset of Recommendation 4 under the recommendations directed to the Director, DLA.

Currently all systems coming before the DBC must assert compliance with the Business Enterprise Architecture (BEA), including SFIS and the latest DoD SCOA, as practicable. All changes and updates to system requirements are certified by the system owner in this process.

**DCMO CRITICAL TECHNICAL COMMENTS ON DRAFT REPORT:**

1. The initial deployment of DAI was in October 2008 (FY09) to the Business Transformation Agency (BTA). Subsequent deployments occurred through October 2011 (FY12). However, the DAI program was not designated as a Pre-Major Automated Information System (MAIS) until February 2011. Therefore, the majority of deployments to date occurred while DAI was an ACAT III program under the acquisition oversight of BTA. Stating that failure to ensure proper

## Deputy Chief Management Officer Comments

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implementation of DAI prior to deployment by the DCMO was an underlying cause of issues is inaccurate, as the DCMO had no oversight role until February 2011.

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In addition, since the Pre-MAIS designation in February 2011, the Office of the DCMO has been actively engaged with the DAI Program Management Office (PMO) in a variety of ways to include convening a DAI Principal's Group on a regular basis throughout 2012 to review program execution and status. This group consisted of Principals from the DCMO, Under Secretary of Defense (Comptroller), Defense Information Systems Agency, and Defense Logistics Agency.

2. The statement "DAI PMO officials did not . . . demonstrate the DAI could correctly record transactions in compliance with the SFIS Transaction Library" is incorrect and misleading. The finding and the supporting statements that follow are completely unrelated. The evidence supporting this statement within the context of this report is solely related to DAI lacking DAI posting accounts within the DAI documentation. There is no connection between DAI posting accounts within the DAI system documentation that relates to the DoD United States Standard General Ledger (USSGL) Transaction Library.

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Furthermore, the supporting statements that follow within the context of this report make no reference to transaction testing or compliance with transactions within the DoD USSGL Transaction Library. In fact, the final italicized sentence within this report section states that the DoD IG did not compare DAI transactions with the DoD USSGL Transaction Library. It is unclear how transaction compliance can be assessed without testing. All subsequent statements on page 5 as well as in the supporting text on pages 10 and 11, relate solely to DAI missing 1551 of 1612 accounts listed in the DAI system documentation. DAI's documentation listing the posting accounts within the system, has no relationship to a 'demonstration' of whether or not DAI 'could correctly record transactions in compliance with the DoD USSGL Transaction Library.'

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3. A percentage of .28% hardly represents a finding. While the accounts in question were not within the scope of DAI at the existing level of implementation, the 3 accounts were added to DAI between the June and September 2011 test periods, as noted on page 5 of the report. As evidenced in the report, DAI is 100% compliant as of September 2011. The report does not accurately reflect DAI's actual compliance with the DoD SCOA.

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4. To state that these 3 unrelated proprietary accounts and the absence of nonstandard internal system documentation "consequently" increases the risk of DoD not achieving an auditable Statement of Budgetary Resources (SBR) in FY14 or fully auditable financial statements by FY17 is unfounded, misleading, and misguided. Nowhere in the context of this report is there any discussion of transactions validated for compliance against the DoD USSGL Transaction Library. Without the existence of testing, there is no means for stating transaction compliance could or could not be demonstrated.

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23-24

5. There is no federal financial management guidance that requires system owners to take on the costly process of compiling and producing an entire DAI transaction code library. Further, the implication that to validate posting logic efficacy, the "entire" posting model needs to be

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# Deputy Chief Management Officer Comments

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produced is inaccurate. Auditors use sampling to test controls and balances. If the DoD IG needed to test this, it should have set thresholds and sampled DAI's transactions. There is no indication in the report that the DoD IG tested transactions to validate compliance with the DoD USSGL Transaction Library.

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6. There is no federal financial management guidance that requires system owners to take on the costly process of compiling and producing a library "transaction level crosswalk". DAI accounts are aligned within the system to the DoD SCOA at the account level, not at the transaction level. The DoD IG could have tested this account level alignment through transaction sampling. This method gives a higher level of assurance than external documentation and is considerably less costly.

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7. The table on page 10 restates the unsupported phrase "could be misstated by \$1.3 billion" to now being "unreliable" (see table title and column heading). The context of this statement is unfounded, misleading and unsupported in the context of the report.

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8. Prior to DAI going live in 2008, DAI asserted compliance to the BEA, including the requirements within SFIS and the USSGL. As evidenced in this report, DAI was 99.72% compliant with the DoD SCOA and 100% compliant as of September 2011. It appears that DAI is far more compliant with the enterprise level financial management requirements in support of FY14 auditability than the system is being credited.

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# Deputy Chief Management Officer Technical Comments

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DoDIG Draft Report Comment Matrix  
DoDIG Project No. D2011-D000DB-0195.000  
"Defense Agencies Initiative Did Not Contain Some Required Data Needed to Produce Reliable Financial Statements"

Date: 2/12/13

Organization: Office of the Deputy Chief Management Officer

Comment Number	Page No.	Statement from Report	Comment
1.	i	The root cause of these problems was that the [DCMO and the DCFO] did not ensure DAI officials properly configured DAI before deploying the system.	<p>Initial deployment of DAI was in Oct 2008 (FY09) to BTA. Subsequent deployments occurred through Oct 2011 (FY12). However, the DAI program was not designated as a Pre-MAIS until Feb 2011. Therefore, the majority of deployments to date occurred while DAI was an ACAT III program under the acquisition oversight of BTA. Stating that failure to ensure proper implementation of DAI prior to deployment by DCMO was an underlying cause of issues is inaccurate, as DCMO had no oversight role until Feb 2011.</p> <p>In addition, since the Pre-MAIS designation in Feb 2011, the Office of the DCMO has been actively engaged with the DAI PMO in a variety of ways, to include convening a DAI Principal's Group on a regular basis throughout 2012 to review program execution and status. This group consisted of Principals from DCMO, OSD(C), DISA, and DLA.</p>
2.	1	The DAI PMO spent \$193 million to develop and deploy DAI from FY 2007 through May 2012. DAI PMO estimated the total cost at completion for DAI to be \$426.8 million through FY 2016.	We have concerns that the \$193M consists of investment appropriations only (RDT&E/Procurement), whereas the \$426.8M total cost figure may include O&S costs. If this is the case, the numbers in the paragraph could be misleading. We recommend validating the appropriations associated with each cost figure to ensure consistency in the data.

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Comment Number	Page No.	Statement from Report	Comment
3.	3	SFIS contains a USSGL transaction library that defines DoD transaction codes that delineate the transaction codes in the TFM ...	While the DoD accounts applicable to the DoD USSGL Transaction Library are SFIS elements (DoD/USSGL Account Code), the library is separate and distinct from SFIS. SFIS is tied each year to the release of the BEA. The Library is intentionally maintained separately to avoid being tied to a February/March release date.
4.	5	DAI PMO officials did not ... demonstrate the DAI could correctly record transactions in compliance with the SFIS Transaction Library.	<p>This statement is incorrect and misleading. This finding and the supporting statements that follow are completely unrelated. The evidence supporting this statement within the context of this report is solely related to DAI lacking DAI posting accounts within the DAI documentation. There is no connection between DAI posting accounts within the DAI system documentation that relates to the DoD USSGL Transaction Library. The two are unrelated.</p> <p>Further the supporting statements that follow within the context of this report make no reference to transaction testing or compliance with transactions within the DoD USSGL Transaction Library. All subsequent statements on page 5 as well as in the supporting text on pages 10 and 11, relate solely to DAI missing 1551 of 1612 accounts listed in the DAI system documentation. DAI's documentation listing the posting accounts within their system has no relationship to a 'demonstration' whether or not DAI 'could correctly record transactions in compliance with the DoD USSGL Transaction Library.'</p>
5.	5	The DAI PMO officials did not ... include 3 out of 1064 accounts contained in the DoD SCOA.	<p>A percentage of .28% hardly represents a finding. While the accounts in question were not within the scope of DAI at the existing level of implementation, the 3 accounts were added to DAI between the June and September 2011 test periods, as noted on page 5 of the report. As evidenced in this report, DAI is 100% compliant as of September 2011.</p> <p>This report does not accurately reflect DAI's actual compliance with the DoD Standard Chart of Accounts (SCOA).</p>

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Comment Number	Page No.	Statement from Report	Comment
6.	5	The root cause of these issues was that the DCMO and the USDC/CFO did not ensure DAI and the DAI PMO properly configured the reporting attributes, SFIS Transaction Library, and the DoD SCOA before deploying the system.	Initial deployment of DAI was in Oct 2008 (FY09) to BTA. Subsequent deployments occurred through Oct 2011 (FY12). However, the DAI program was not designated as a Pre-MAIS until Feb 2011. Therefore, the majority of deployments to date occurred while DAI was an ACAT III program under the acquisition oversight of BTA. Stating that failure to ensure proper implementation of DAI prior to deployment by DCMO was an underlying cause of issues is inaccurate, as DCMO had no oversight role until Feb 2011.  In addition, since the Pre-MAIS designation in Feb 2011, the Office of the DCMO has been actively engaged with the DAI PMO in a variety of ways, to include convening a DAI Principal's Group on a regular basis throughout 2012 to review program execution and status. This group consisted of Principals from DCMO, OSD(C), DISA, and DLA.
7.	5	In addition, without the ability to review the entire DAI transaction code library and compare it with the SFIS Transaction Library, neither the DAI PMO nor auditors can validate that the DAI posting logic records business transactions as required by the SFIS Transaction Library.	This is incorrect. There is no Federal financial management guidance that requires system owners to take on the costly process of compiling and producing an entire DAI transaction code library. Further, the implication that to validate posting logic efficacy, the "entire" posting model needs to be produced is inaccurate. Auditors use sampling to test controls and balances. If the OIG needed to test this, it should have set thresholds and sampled DAI's transactions. There is no indication in this report that the DoD OIG tested transactions to validate compliance with the DoD USSGL Transaction Library.
8.	5	Furthermore, without a complete DoD SCOA, Defense organizations do not fully comply with USSGL requirements, and financial information will be incomplete or misstated. Consequently, there is an increased risk of DoD not achieving an	This is incorrect. To state that these 3 unrelated proprietary accounts and the absence of nonstandard system documentation "consequently" increases the risk of DoD not achieving an auditable SBR in FY2014 or fully auditable financial statements by FY2017 is unfounded, misleading, and misguided. As noted in this report, DAI is 99.72% compliant with the DoD SCOA (and validated at 100% compliant in September 2011).

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		auditable SBR in FY 2014 and not having fully auditable financial statements by FY 2017.	Further, to cite supporting evidence of not obtaining auditability because of 3 accounts, not even remotely related to the SBR, that are not listed in a chart of accounts of 1064 (.28% of the total) is misleading and unfounded. The DCMO recommends that the report accurately document DAI's 99.72% compliance with the DoD Standard Chart of Accounts (SCOA) toward obtaining auditability in FY2014 and FY2017, as evidenced within this finding.
9.	6	Custodial/Non-Custodial Indicator: Agencies use this attribute to prepare the Statement of Custodial Activity (SCA)	This statement is misleading. The report should correctly state that the Statement of Custodial Activity is N/A to the Department of Defense. DoD reduces the custodial information reported within the Department into a footnote for financial statement reporting.  Concur that DAI should consistently include the Custodial/non-custodial Indicator as applicable by account on the DDRS trial balance.
10.	8	<b>The Program Indicator Code</b> identifies the amount of cost or revenue directly or indirectly traceable to programs. Agencies use this attribute to prepare the SNC. USSGL required this attribute for eight accounts. DAI did not transmit this attribute for the months June 2011 and September 2011.	This statement is misleading. There needs to be FM Policy changes associated with structuring the Statement of Net Cost (SoNC). Currently, the SoNC is structured by Appropriations. This is in conflict with OMB Circular A-136 and Statement of Federal Financial Account Standard (SFAS) No. 4. Until policy is adjusted to structure the SoNC by Program and provide a Program value list to present the SoNC by, then there is no value in putting the Program Indicator Code in SFIS or within DAI.
11.	9 and Table on page 10	Accounts Receivable for Non-Federal Entities is reported under Accounts Receivable Net (1B of the Balance Sheet). When the attribute is not populated, DAI defaults to a Non-Federal Accounts Receivable amount. Therefore, the Accounts Receivable under the Intragovernmental Assets section of the	This statement is misleading and misguided. The accounts receivable account (1310.0940) to which this statement addresses is only reported on the DoD Balance Sheet. There is no impact on the Statement of Budgetary Resources (SBR) as indicated in the context of this report.  Further, to broadly sweep the entire \$1.3 billion as applicable to budgetary accounts listed on page 7 (from the September 2011 testing only) is factually inaccurate and unfounded.

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Page 16

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Comment Number	Page No.	Statement from Report	Comment
		Balance Sheet, and the Statement of Budgetary Resources could be misstated up to \$1.3 billion.	
12.	10	Table Title: "Unreliable" Financial Data . . . column heading "Unreliable Amounts"	The table on page 10 restates that unsupported phrase "could be misstated by \$1.3 billion" to now being "unreliable" (see Table title and column heading). The context of this statement is unfounded, misleading and unsupported in the context of this report.
13.	10	The DAI PMO did not demonstrate that DAI could correctly record transactions in compliance with the SFIS Transaction Library.	<p>This statement is misleading. The evidence supporting this statement within the context of this report is solely related to DAI lacking DAI posting accounts within the DAI documentation. There is no connection between DAI posting accounts within the DAI system documentation that relates to the DoD USSGL Transaction Library. DAI's documentation listing the posting accounts within their system has no relationship to a 'demonstration' whether or not DAI 'could correctly record transactions in compliance with the DoD USSGL Transaction Library.' The two sources of documentation are unrelated.</p> <p>Further, the supporting statements that follow within the context of this report make no reference to transaction testing or compliance with transactions within the DoD USSGL Transaction Library. In fact the final italicized sentence within this section states that the DoD IG did not compare DAI transactions with the DoD USSGL Transaction Library. It is unclear how transaction compliance can be assessed without testing.</p>
14.	11	In addition, without the ability to review the entire DAI transaction code library and compare it with the SFIS Transaction Library, neither the DAI PMO nor auditors can validate that the DAI posting logic records business transactions as required by the SFIS Transaction Library.	This correlation is incorrect. There is no Federal financial management guidance that requires system owners to take on the costly process of compiling and producing an entire DAI transaction code library. Further, the implication that to validate the posting logic efficacy, the "entire" posting model needs to be produced is inaccurate. Auditors use sampling to test controls and balances. If the OIG needed to test this, it should have set thresholds and sampled DAI's transactions. There is no

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Comment Number	Page No.	Statement from Report	Comment
			<p>indication in this report that the DoD OIG tested transactions to validate DAI compliance with the DoD USSGL Transaction Library.</p> <p>Further, as stated previously in our response, there is no indication in the context of this report that transaction testing was performed for assessing compliance with the DoD USSGL Transaction Library within the scope of this audit engagement.</p>
15.	11	<i>To ensure DAI adequately records business events to the general ledger, DAI PMO should develop complete system documentation that crosswalks the DAI transaction library to the current USSGL SFIS transaction library.</i>	ODCMO disagrees with this recommendation for practical and cost reasons. There is no Federal financial management guidance that requires system owners to take on the costly process of compiling and producing a Library "transaction level crosswalk". DAI accounts are aligned within the system to the DoD Standard Chart of Accounts at the account level, not at the transaction level. The OIG could have tested this account level alignment through transaction sampling. This gives a higher level of assurance than external documentation and is considerably less costly.
16.	11-12	In addition, the DoD FMR lacked clarity regarding the inclusion of all USSGL accounts. . . . the USD(C)/CFO should revise DoD FMR volume 1, chapter 7, paragraph 070502 to require core financial systems to include all of the accounts in the DoD SCOA that are required for the type of fund (either general fund, working capital fund, or both) applicable to the system.	Partially Concur. The DCFO has informally coordinated a DoD policy memo that provides detailed instructions on what accounts should be included in each type of system, as well as how to request exemption should certain accounts not be applicable and the system is requesting to not include in configuration. The appropriate citations within DoD FMR Volume 1, Chapter 7 will be updated when this DCFO memorandum is finalized.
17.	12	DCMO and USD(C)/CFO did not ensure that the DAI PMO properly implemented the reporting attributes, the SFIS Transaction Library, and the DoD SCOA	This statement is factually inaccurate and misleading. Prior to going live in October 2008, DAI asserted compliance to the BEA, of which compliance with the attributes in SFIS is included. As evidenced in this report, with 99.72% compliance to the DoD Standard Chart of Accounts,

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Comment Number	Page No.	Statement from Report	Comment
		before deploying the system.	<p>it would seem that DAI has, in fact, correctly implemented enterprise level requirements. Please indicate where this fact is documented within the context of this report.</p> <p>Further, as stated above, initial deployment of DAI was in Oct 2008 (FY09) to BTA. Subsequent deployments occurred through Oct 2011 (FY12). However, the DAI program was not designated as a Pre-MAIS until Feb 2011. Therefore, the majority of deployments to date occurred while DAI was an ACAT III program under the acquisition oversight of BTA. Stating that failure to ensure proper implementation of DAI prior to deployment by DCMO was an underlying cause of issues is inaccurate, as DCMO had no oversight role until Feb 2011. As noted in an earlier response, the Office of the DCMO has been actively engaged with the DAI PMO in a variety of ways since the Pre-MAIS designation in Feb 2011.</p>
18.	12	<i>Without adequate oversight from DCMO and USD(C)/CFO, there is no assurance that DAI complied with the USSGL, SFIS Transaction Library, and the DoD SCOA. DCMO, in coordination with USD(C)/CFO, should provide adequate oversight to ensure that DAI complies with the current USSGL, SFIS Transaction Library, and DDRS requirements.</i>	<p>This statement is factually inaccurate and misleading. Prior to going live in 2008, DAI asserted compliance to the BEA, including the requirements within SFIS and the USSGL. As evidenced in this report, with 99.72% compliance to the DoD Standard Chart of Accounts, it would seem that DAI has, in fact, correctly implemented enterprise level requirements.</p> <p>In a period of Federal budget restraints, the DCMO does not believe it would be the most advantageous use of taxpayer dollars to focus DoD validation funds on a system that is evidenced in this report as being 99.72% compliant. As the DoD IG has noted in other reports, there are systems with far greater need of implementation assistance. DAI was a voluntary member of the SFIS validation pilot in 2011. The DCMO and OUSD(C) will schedule a full SFIS validation as schedule and dollars permit.</p>

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Recommendation 3a,  
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Comment Number	Page No.	Statement from Report	Comment
19.	12-13	<i>In addition, DCMO should develop a procedure that ensures the validation of changes made after each revision of the reporting attributes, SFIS Transaction Library or DoD SCOA.</i>	As evidenced in this report, the DoD IG has, in fact, validated that DAI is 99.72% compliant with the DoD Standard Chart of Accounts (SCOA) through correctly implementing enterprise level financial management requirements. The report also notes that in September 2011, DAI was 100% compliant with the DoD SCOA.  Currently all systems coming before the Defense Business Council (DBC) must assert compliance with the BEA, including SFIS and the latest DoD Standard Chart of Accounts (SCOA), as practicable. All changes and updates to system requirements are certified by the system owner in this process.
20	13	Because the DAI PMO did not transmit to DDORS-B all the required USSGL reporting attributes and did not demonstrate that DAI could record transactions in compliance with the SFIS Transaction Library, there is an increased risk of DoD not achieving an auditable SBR in FY 2014 and not having auditable financial statements by FY 2017	As noted above, it is unfounded, misleading, and misguided to identify the absence of nonstandard internal system documentation as an 'increased risk of DoD not achieving an auditable SBR in FY2014 or not having auditable financial statements by FY2017. Nowhere in the context of this report is there any discussion of transactions validated for compliance against the DoD USSGL Transaction Library. Without the existence of testing there is no means for stating transaction compliance could or could not be demonstrated.  Per this DoD IG report, DAI was 99.72% compliant with the DoD Standard Chart of Accounts (and 100% compliant as of September 2011). It appears that DAI is far more compliant with the enterprise level requirements in support of FY2014 auditability than the system is being credited.
21.	14	Recommendation 3a – The DCMO in coordination with the DCFO should conduct a one-time validation that the Defense Agencies Initiative has implemented the reporting attributes,	As evidenced in this report, the DoD IG team validated that DAI is 99.72% compliant with the DoD Standard Chart of Accounts. In a period of Federal budget restraints, the DCMO does not believe it would be the most advantageous use of taxpayer dollars to focus DoD validation funds on a system that is evidenced in this report as being

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Recommendation 3a,  
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Comment Number	Page No.	Statement from Report	Comment
		posting logic, and FY 2013 DoD Standard Chart of Accounts for the business events needed to support financial reporting of general and working capital transactional data as directed by DoD Policy.	<p>99.72% compliant. As the DoD IG has noted in other reports, there are systems with far greater need of implementation assistance. DAI was a voluntary member of the SFIS validation pilot in 2011. The DCMO and OUSD(C) will schedule a full SFIS validation as schedule and dollars permit.</p> <p>Currently all systems coming before the Defense Business Council (DBC) must assert compliance with the BEA, including SFIS and the latest DoD Standard Chart of Accounts (SCOA), as practicable. All changes and updates to system requirements are certified by the system owner in this process.</p>
22.	14	Recommendation 3b – The DCMO in coordination with the DCFO should develop a procedure that ensures the validation of changes made after each subsequent issuance of the reporting attributes, Standard Financial Information Structure Transaction Library or DoD Standard Chart of Accounts.	<p>Partially Concur. Suggest that the recommendation be identified as a component PCA requirement to validate to the DBC that this has been accomplished on an annual basis. This should be moved to a subset of Recommendation 4 under the Director, DLA.</p> <p>Currently all systems coming before the Defense Business Council (DBC) must assert compliance with the BEA, including SFIS and the latest DoD Standard Chart of Accounts (SCOA), as practicable. All changes and updates to system requirements are certified by the system owner in this process.</p>

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Recommendation 3b,  
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## Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 22060-6221

MEMORANDUM FOR DLA OFFICE OF THE INSPECTOR GENERAL  
ATTN: MS. BERNICE SARNOSKY

SUBJECT: Draft Audit Report: Defense Agencies Initiative Did Not Contain Some Required  
Data Needed to Produce Reliable Financial Statements (Project No. D2011-  
D000DB-0195.000), dated February 5, 2013

The DLA Information Operations staff has reviewed the draft audit report. Management comments and actions associated with the findings and recommendations are outlined on the attachment.

The administrative point of contact is [REDACTED] DLA Information  
Operations, IT Business, Licensing, and Performance Management, at [REDACTED]  
[REDACTED] or email: [REDACTED]

CUTLER.KATHY.D. [REDACTED]  
[REDACTED]  
KATHY CUTLER  
Director, DLA Information Operations  
Chief Information Officer

Attachment:  
As stated

# Defense Logistics Agency Comments

## **J6 Response to Draft Report - Defense Agencies Initiative Did Not Contain Some Required Data Needed to Produce Reliable Financial Statements (Project No. D2011-D000DB-0195.000)**

*Recommendations 1a, 1b, 1c were addressed to the DAI PMO. The responses are included below.*

*Recommendation 2 (not shown) was addressed to Under Secretary of Defense (Comptroller)/Chief Financial Officer*

*Recommendation 3 (not shown) was addressed to Deputy Chief Management Officer*

*Recommendation 4 was addressed to Director, Defense Logistics Agency. J6 has responded and the verbiage is included below.*

### **Recommendations and J6 Responses:**

**1a. We recommend that the Project Manager of the Defense Agencies Initiative modify the system to consistently report the following six attributes in accordance with current United States Standard General Ledger and Standard Financial Information Structure requirements: Custodial/Non-Custodial Indicator, the Budget Enforcement Act Category Indicator, the Availability Time Indicator, the Federal/Non-Federal Indicator, the Prior Year Adjustment Code, and the Apportionment Category B Code.**

Response: J6 management concurs with the auditors' comments, and has corrected the six attributes listed in Recommendation 1.a. and observed that DAI financial reports have included the correct attributes.

**1b. We recommend that the Project Manager of the Defense Agencies Initiative implement controls to prevent users from creating manual journal vouchers without all the reporting attributes required by the United States Standard General Ledger and the Standard Financial Information Structure.**

Response: J6 management concurs with the recommendation and has developed a process reengineering effort to review/mature controls for manual journal voucher entries to ensure Agency DFAS support users/approvers are aware of required attributes. The review and approval workflow currently provides the quality check to ensure that each voucher contains the applicable attributes. During configuration of the USSGL values, static reporting attribution was also configured. This configuration is then used to populate the interface output file that is sent from DAI to DDARS for Treasury level reporting. Since not all of the associated attribute business rules are populated systemically when entering manual journals, DAI created a Descriptive Flexfield (DFF) to accommodate entering those specific attributes not derived from the core configuration. Today, DFAS managers determine when a DFF is required to capture applicable attributes. The revised JV review and approval process captures the attributes required.

- USSGL: When recording a manual JV, the system may pull the corresponding attributes based on the specific USSGL. Some of these attributes are stored on the USSGL themselves as well as on the specific fund that is used.
- Not Derived from USSGL: When the attributes cannot be derived based on a specific segment value, the JV drafter will include established DAI DFFs with the remaining attributes (attached).

**1c. We recommend that the Project Manager of the Defense Agencies Initiative develop complete system documentation that includes a crosswalk of the Defense Agencies Initiative transaction library to the United States Standard General Ledger transactions library.**

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Response: J6 management concurs with the recommendation and will develop the crosswalk by the end of FY 2013. The crosswalk will include the DOD USSGL Transaction Library and identify those transactions configured by DAI. Under the audit readiness efforts underway, DAI is conducting a Federal Financial Management Improvement Act (FFMIA) scope review with support from DLA audit support contractors in conjunction with DFAS. Scope results are due out by May. Between May and September, the results will be used to review DAI transactions in view of the DoD USSGL Transaction Library.

**4. We recommend that the Director, Defense Logistics Agency, annually review the Defense Agencies Initiative to ensure that the Defense Agencies Initiative Program Management Office has correctly implemented the reporting attributes, Standard Financial Information Structure Transaction Library posting logic, and DoD Standard Chart of Accounts to support financial reporting.**

Response: J6 management concurs with the recommendation. Currently DLA is performing a FFMIA Review of DAI as part of the Department's audit readiness efforts, which includes extensive testing of SFIS requirements. This review is scheduled to be completed by July 31, 2013. As a result of corrective actions identified by this audit and DLA's FFMIA work, DLA management will review all findings and recommendations and implement an appropriate review schedule to address these requirements.







# Inspector General Department of Defense